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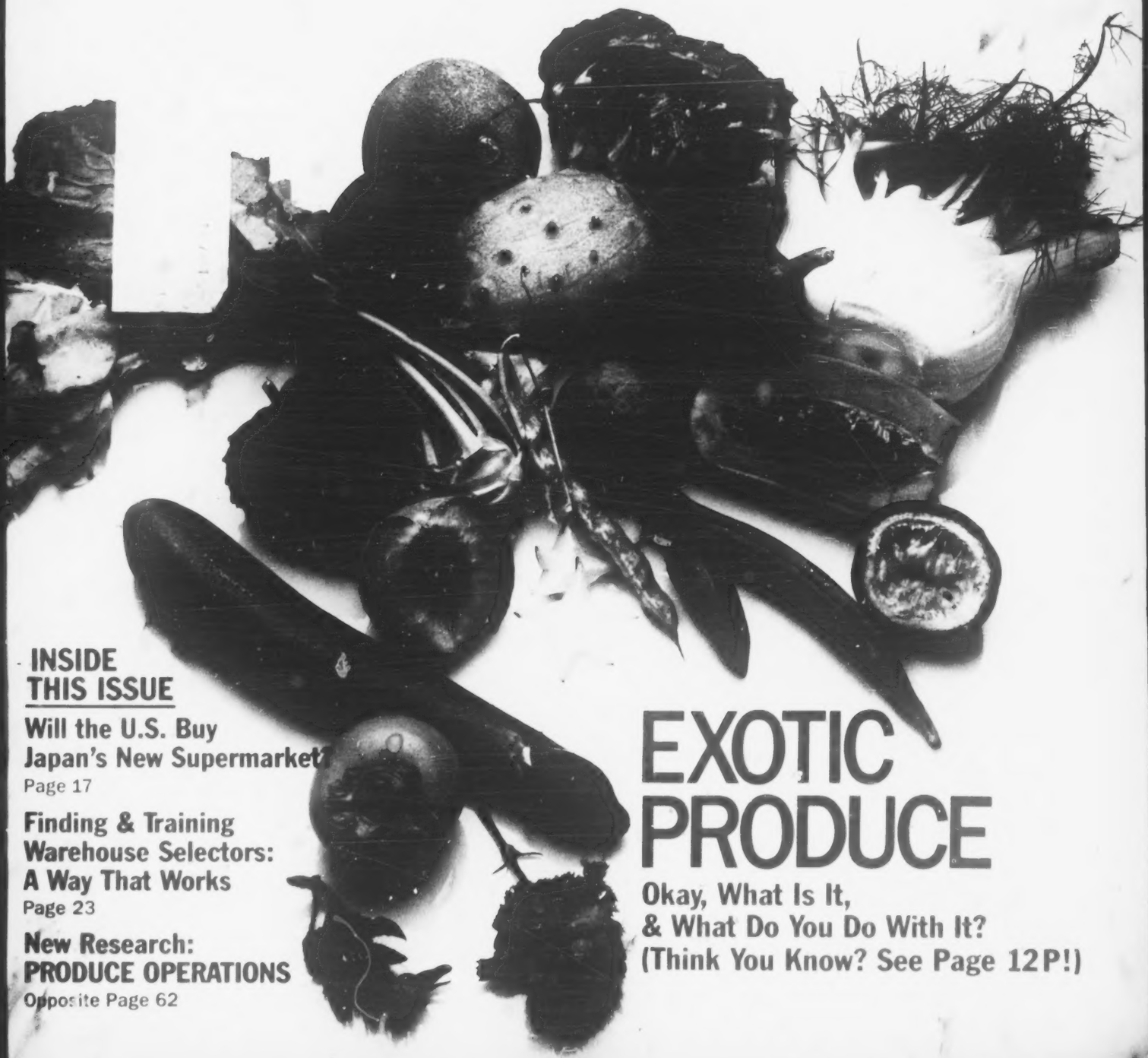
SUPERMARKET BUSINESS

$6.00
PER COPY

VOLUME 43/NUMBER 10
OCTOBER 1988



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SUPERMARKET BUSINESS Magazine (ISSN 0196-5700) is published monthly by Sosland Publishing Co., 25 W. 43rd St., New York, N.Y. 10036. Telephone: 212-354-5169. Circulated free of charge to grocery retailers and wholesalers. U.S. subscriptions $48 per year; Canada, $56 per year. Foreign subscriptions $66 (seamail), $212 (airmail), per year. Single copies $6 except Consumer Expenditures Study (September issue) $32 per copy. (Discount prices available on multiple purchases.)

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Second class postage paid at New York, N.Y., and additional mailing offices.

All circulation inquiries to: SUPERMARKET BUSINESS, Sosland Publishing Company, 9000 W. 67th St., PO Box 29155, Shawnee Mission, KS 66201. Telephone (913) 236-7300.

VBPA ABP

By Ken Parkh, Editor-in-Chief

Welcome To Wall Street—Not The Movie

In the beginning, before the wheel, before the loom, before scanners and the PC, before the LBO, grocery stores were a relatively simple business. Supermarkets were even simpler. That was the whole idea. They bought groceries at the best prices they could find. Insisted they be the best, and then sold them to consumers at the lowest possible markup, by eliminating all unnecessary costs. It made for a formidable institution—a profit-making institution. Yes, even a social institution that became the envy of both worlds—East and West.

But as an institution as we knew it, it is in danger. It is in danger because of rapid consolidation and increasing foreign ownership. Ordinarily (that is, before the LBO fever and the hostile takeover fever hit this industry), it would not matter who the owners happened to be—foreign or domestic. But it begins to matter a great deal when some half of the total industry is owned by the banks or by foreign capital. It isn't that foreign capital is bad, any more than U.S. capital abroad is bad. But foreign retailing does business on a different basis than does U.S. retailing. The traditions are different. Or, I should say, different from what U.S. retailing used to be. Today, I am not so sure. The question is, will we continue to do business according to the U.S. traditions, or will we move toward the foreign ways of doing business between giant distributors and giant manufacturers?

Gene Hoffman, industry consultant and former senior vice president of Super Valu, puts it this way: "Look at southern California," he says. "All it means is that a ton of money has been poured into the market in the form of debt, which will have to be paid back—ultimately by the consumers, of course."

Consolidation on the part of manufacturers is also creating tremendous clout and tremendous power. Manufacturers, eventually, may be able to use this power to counteract some of the raw distributor power. Distributor power that is demanding more and more "up front" to the point where manufacturers will soon be renting shelf space, if that has not already come to pass. Many might think that that's not so bad, and is even a good idea. But ultimately it is bad.

It is bad because it puts the distributor, whether chain or wholesaler, into a different business. Now, there is no incentive to push back, to hold the line on prices and costs. The distributor can't possibly act as the "agent for the consumer" when it becomes in the distributor's best interest to obtain the highest "rental fee" for shelf space he can get. The motivation becomes convoluted, at best. Ultimately, the manufacturers face three choices: cut down all deals and allowances to the barest minimum, or pass on the increased costs to the consumer—or both.

> **The question is: Will we move toward the foreign ways of doing business between giant distributors and giant manufacturers?**

Many manufacturers are already beginning to refuse a lot of the "up front" payments. This movement could become a landslide.

At long last, the supermarket has moved into the food business, and we have applauded this move. But everything is in danger if all that means is that the supermarket has now become a restaurant, or a fast food outlet with groceries, and space for the groceries is going to the highest bidder. The whole cost structure is in danger of getting out of whack. And then, you may ask, who is paying for these food palaces? Is the manufacturer of grocery products paying for them and passing the cost on to the consumer? In some cases we suspect so. If true, then the manufacturer of branded food products is financing his own competition.

Kroger has been rebuilding its outmoded stores, which has had a negative effect on profits. Should it not have asked its stockholders to forego profits while it modernized its physical plant? Should it have sold out to foreign capital to find a new source of investment? Perhaps there have been management mistakes. Should the penalty be destruction of the Kroger company, while a few insiders and outside "investors" become rich? What do they bring to make Kroger a better company except borrowed money, which will have to be paid back out of Kroger assets? Where is the inherent efficiency in this?

What advantage is there in size? Kohlberg, Kravis, Roberts & Company is already the owner of Safeway, Stop & Shop and Pathmark, which before the sell-offs at Safeway, and the proposed acquisition of Kroger, would make it the largest single supermarket company anywhere, with sales of over $46 billion and more than 3,900 stores, including the old Safeway. KKR is more a giant repository of grocery chain assets than a functioning company.

The banks will tell you that their reorganizations of giant multi-regional chains will make them more efficient, since if the chains' profitability were better, they wouldn't make such attractive takeover targets. That the chains are not making the best use of their assets, and so deserve to be taken over and "better" managed.

But how does that jibe with the history of these takeovers? As soon as the deal is completed, assets must be used to pay down the debt. Look at Safeway. A number of people lose their jobs, and a number of local and regional chains become even more powerful.

Indeed, a number of regional

Continued on page 10

SAMI UPDATE

HBA Gain Rate For July Falls Short Of Increases Recorded By Food Categories

Loss rate found among first aid, oral hygiene and shaving needs product groups.

BY ALAN MILLER JR.

Food store unit volume for health and beauty aids continued to move upward during July, but the pace slowed somewhat.

During the four weeks ending July 15, 1988, food store unit volume in the 52 categories of health and beauty aids for which there are two years or more of sales movement available rose 2.5% above the level for the corresponding year ago period. The tonnage gains for each of the three food product departments were higher than the HBA performance. Shelf-stable foods had a poundage increase of 4.3%, while poundage for frozen and refrigerated foods rose 3.3% and 2.6% respectively.

However, during this 28-day reporting period health and beauty aids achieved a dollar gain of 6.6%, which was higher than any of the other departments. The dollar gain for dry grocery food products was 6.3% and there were dollar increases of 6.1% for frozen foods and 4.6% for refrigerated foods. The lowest dollar gain rate was 2.0% for dry grocery nonfood items.

Five categories gain

Of the eight HBA product groups there were five with plus volume and three with loss rates. The highest unit volume percentage decline was 1.8% in the case of first aid products, followed by a dip of 0.6% for shaving needs and 0.5% for oral hygiene products. The highest gain rate was 9.4% for skin care aids.

Personal deodorants advanced 4.7%, while the gain rates for proprietary remedies and hair care needs were 3.9% and 3.2%. On a product category measurement basis, the score was 34 to 18 in favor of gains over losses. This was the same ratio as for the preceding four-week period. There were 12 product categories with double digit gain rates, topped by the 44.1% increase among feminine hygiene deodorants.

In the baby needs product group, the gains and losses were evenly split. Both baby powders and infant clothes continued to exhibit sales weakness, while gains were recorded for 52 weeks, 12 weeks and four weeks in the baby oil, cream & lotions and nursing supplies categories.

Some strength in deodorants

Although three of the personal deodorant categories registered four-week unit sales declines, the product group as a whole was ahead 4.7%, aided particularly by strong performance for feminine hygiene deodorants (+ 44.1%), deodorant and talcum powder (+ 15.1), feminine douches/washes (+ 12.7) and stick deodorants and pads.

The firm showing for stick deodorants contributed to sales weakness for cream deodorants (− 7.8%), spray deodorants (− 4.8%) and roll-on deodorants (− 1.7%). Foot deodorants and athlete's foot remedies moved ahead 8.8%.

The performance of first aid antiseptics (+ 2.3%) continued to outperform first aid products (− 3.3%). Gains for the over-the-counter cortisone remedies have contributed to the increase among antiseptics.

Among hair care needs, the plus categories exceeded the minus categories on a 4 to 3 ratio. Hair sprays continued to fare better than any other category in this product group.

Hair spray newcomers

Three new hair sprays that were not marketed in the corresponding year ago period have helped to expand category volume: Salon Selectives, from Helene Curtis; St. Ives, from St. Ives Laboratories and Bold Hold, introduced nationally by Alberto Culver.

Hair conditioning rinses enjoyed a favorable trend and the 8.4% gain for the four-week period was higher than their 6.5% gains for 12 weeks or 3.8% for the full year interval. Lesser gains of 2.0% and 0.3% were observed in the hair coloring and hair setting needs categories. These advances were less than their gain rates for the 12-week interval.

The sharpest loss among hair care needs was the 14.6% decline for home permanent kits, which now show losses for the full year and the 12-week period. Shampoos are also in the red for all three time frames, as are hair dressing needs, where most major brands of men's hair grooming products are losing ground.

Mouthwash moves ahead

Oral hygiene products in total fell behind the 1987 rate largely as a result of a loss of 1.3 million units of toothpaste and powder. However, almost a million units of this loss were made up for by the gain of 11.1% for mouthwash brands. There were also gains of 4.7% for denture adhesives and 2.8% for dental aids (dental floss as well as dental appliances). Three other oral hygiene categories were in arrears: denture cleaners (− 1.4%), toothbrushes (− 1.2%) and breath fresheners (− 1.0%).

Eleven of the 14 categories of proprietary remedies tracked by SAMI were on the plus side of the ledger. Identical gain rates of 15.1% were found in the cold remedies and appetite suppressant categories. The cold remedies' gain translated to a four-week unit increase of 937,000, whereas the gain for appetite suppressants was just over 100,000.

All of the cough and cold remedies showed sales vitality. There were gains of 5% to 6% for nasal spray/drops/inhalers, cough remedies and chest rubs. Internal analgesics (often used for respiratory ailments) advanced just 1.2%. Both synthetic (+ 4.7)% and natural vitamins, minerals and supplements (+ 8.1%) showed consistent upward trends.

The three categories with four-week loss rates were the small-volume proprietary remedy category (− 9.7%), sleeping aids (− 2.6%) and external analgesics (− 2.2%).

Razor blades nicked

There was only one category of shaving needs with a loss, but because it occurred in the high-volume razor blade category (− 3.0%), the unit volume for the entire product group fell slightly (− 0.6%). Razor sets showed a plus of 11.0% and after-shave lotions moved forward 4.8%—a higher gain rate than either the 3.5% for shaving creams or 1.5% for pre shave lotions.

Except for cosmetic and medicated skin aids, where volume fell 0.4%, the skin care aids section performed well. The highest gain rate was the 24.9% for suntan lotion—suntan oil where sunscreen items are in strong demand. There were also double-digit gain rates for facial preparations (+ 14.2%) and hand and body creams and lotions.

The gain rate of 2.7% for lip care products was lower than their trend for the 12-week (+ 5.2%) or 52-week (+ 8.2%) periods.

New HBA products

During the year ending July 15, 1988, new HBA brands doing

$1 million a year or more in food stores and introduced during the 1980s accounted for $1.8 billion, or 21.5% of the 52-category total. This does not include volume contributed by line extensions of established brands or those doing less than $1 million a year that were launched since the start of 1980.

There were 14 product categories in which the share of the new brands of the '80s exceeded 25%, headed by hair setting needs (72.0%), appetite suppressants (46.2%), first aid antiseptics (46.0%), toothbrushes (43.1%), hair conditioners (39.8%) and shampoo (33.9%).

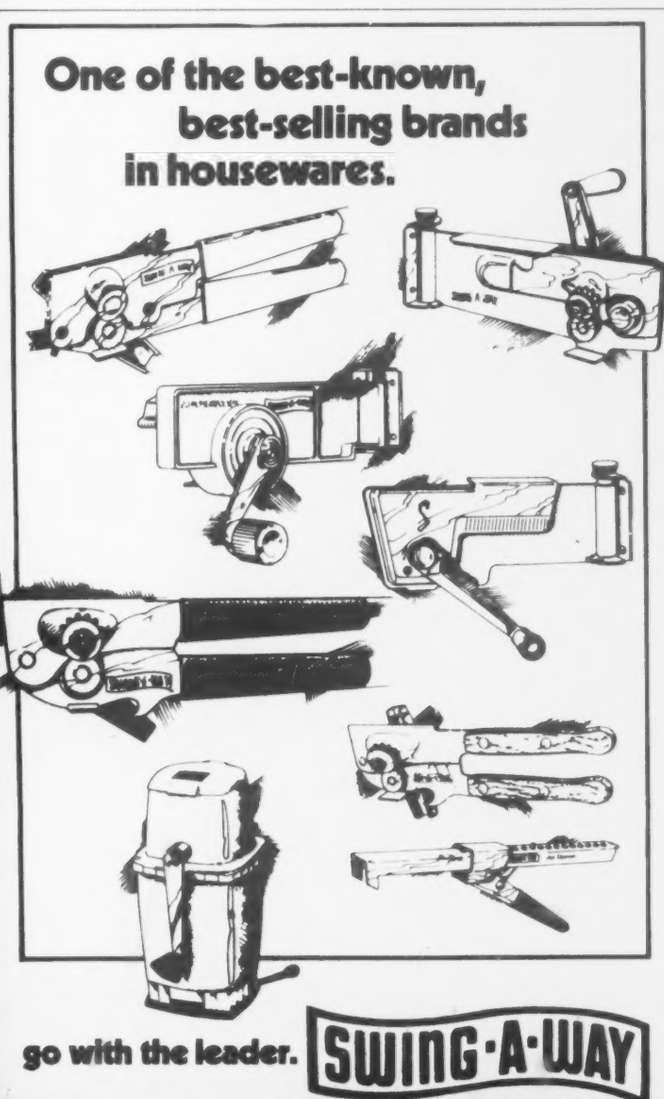
The highest new product retail dollar sales levels were found among: toothpaste and powders ($302.4 million), internal analgesics ($232.1 million), shampoo ($224.5 million), cold remedies ($144.2 million) and mouthwash ($104.4 million).

New products have contributed importantly to the emergence of sticks as the leading form of personal deodorants. New over-the-counter cortisone products have taken over the number one and two spots among first aid antiseptics.

Eighteen of the 46 million-dollar brands of shampoo first appeared during the current decade. New hairstyling mousse products have caused the hairsetting needs category to expand $100 million annually in food stores. Two of the top five brands of toothpaste were launched during the mid-'80s—Crest Tartar Control and Colgate Tartar Control. Nineteen of the million-dollar dentifrice brands first reached food store shelves during the '80s.

The number two brand of internal analgesics, Advil, was introduced in June 1984. There is constant new product churning in the cold remedies category, where four of the top 10 brands are of recent origin. Of the four million-dollar brands of appetite suppressants, only Dexatrim was in existence in 1980.

These are just some of the findings based on SAMI's new HBA mid-year 1988 million-dollar brand study. ■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SAMI UPDATE

HEALTH & BEAUTY AIDS: SAMI FOUR-WEEK FOOD STORE UNIT TRENDS VS. YEAR AGO

PRODUCT GROUP AND CATEGORY	% CHANGE VS. YEAR AGO 4 WEEKS ENDING 5/20/88	4 WEEKS ENDING 6/17/88	4 WEEKS ENDING 7/15/88
BABY NEEDS			
Baby Powders	−10.9	− 4.8	− 3.2
Baby Oils, Creams & Lotions	+ 5.5	+14.4	+ 4.0
Infant Clothes	−13.2	−12.1	−12.2
Nursing Supplies	− 0.9	− 0.3	+ 2.4
DEODORANTS			
Sprays	− 7.7	− 3.5	− 4.8
Roll-Ons	− 3.0	+ 3.0	− 1.7
Stick Deodorants & Pads	+ 4.1	+ 5.7	+10.5
Creams	− 8.7	−14.0	− 7.8
Deodorants & Talcum Powders	+27.3	+ 7.1	+15.1
Feminine Hygiene Deodorants	+49.4	+63.8	+44.1
Foot Deodorants & Athlete's Foot Remedies	+ 5.3	+13.4	+ 8.8
Feminine Douches	+ 9.4	+11.1	+12.7
FIRST AID			
Antiseptics	+ 4.9	+ 6.1	+ 2.3
First Aid Products	− 2.6	− 1.5	− 3.3
HAIR CARE NEEDS			
Shampoos	+ 1.0	− 5.5	− 2.5
Hair Sprays	+20.5	+18.2	+14.7
Hair Conditioning Rinses	+ 5.6	+ 5.5	+ 8.4
Hair Setting Needs	+ 2.0	+ 0.1	+ 0.3
Home Permanent Kits	−13.4	− 7.2	−14.6
Hair Coloring	+ 3.4	+ 3.9	+ 2.0
Hair Dressing Needs	−14.6	− 8.9	− 6.1
ORAL HYGIENE			
Toothpastes & Powders	+ 7.9	+ 4.5	− 3.9
Mouthwashes	+20.2	+16.5	+11.1
Breath Fresheners	+ 1.0	+ 2.1	− 1.0
Denture Cleaners	− 8.0	− 0.2	− 1.4
Denture Adhesives	− 2.7	+ 3.1	+ 4.7
Toothbrushes	+ 3.1	+ 9.5	− 1.2
Dental Aids	+13.6	+22.6	+ 2.8
PROPRIETARY REMEDIES			
Antacids	+ 9.0	− 0.2	+ 2.1
Internal Analgesics	+ 3.5	+ 2.9	+ 1.2
External Analgesics	+ 2.3	− 7.1	− 2.2
Cold Remedies	+10.9	+16.1	+15.1
Nasal Sprays – Drops – Inhalers	− 2.1	+ 7.9	+ 5.7
Chest Rubs	+12.5	+10.8	+ 5.9
Cough Remedies	+13.0	+10.5	+ 5.4
Laxatives	+ 8.9	+ 6.8	+ 8.7
Sleeping Aids	+ 5.3	+ 2.8	− 2.6
Tranquilizers	− 4.1	− 7.7	− 9.7
Synthetic Vitamins	+11.2	+ 3.9	+ 8.1
Eye Care Products	+ 9.6	+ 9.3	+ 5.5
Appetite Suppressants	+29.6	+22.5	+15.1
SHAVING NEEDS			
Shaving Creams	− 9.2	− 6.6	+ 3.5
Pre-Shave Lotions	− 5.3	− 1.8	+ 1.5
After-Shave Lotions	− 0.5	− 1.1	+ 4.8
Razor Blades	− 1.4	− 0.8	− 3.0
Razors & Blades	+12.6	+10.7	+11.0
SKIN CARE AIDS			
Hand & Body Creams & Lotions	− 0.4	+15.1	+12.2
Facial Preparations	+ 8.9	+12.6	+14.2
Lip Care Products	+12.4	− 0.5	+ 2.7
Suntan Lotions & Oils	−25.1	+21.4	+24.9
Cosmetic & Medicated Skin Aids	+ 6.0	+ 2.3	− 0.4
TOTAL ALL CATEGORIES			

1988 PRODUCE DEPARTMENT OPERATIONS REVIEW

BY DAVID LITWAK
DIRECTOR OF RESEARCH

Your produce department may be the single most influential reason that people shop your store. Does your fresh produce section measure up to the national sales and profits norms that helped account for $26 billion at the checkouts last year?

For decades, grocers have been harping on how produce can make or break a store, and how important the section is to the ultimate drawing power of a unit. In this age of nutritious diets, and growing concerns about fresh products, the produce department should take on added significance to the store's bottom line.

With this in mind, SUPERMARKET BUSINESS conducted an in-depth investigation of the operational results of the nation's supermarket produce departments. This first-ever *Produce Department Operations Review* looks at just how important the department is to the store, what sales are and the physical workings of produce departments.

One thing can be said about produce departments: When it comes to units, the department is in a no-growth situation. Of the roughly 30,400 supermarket units currently operating in this country, only about 100 of them have no produce department.

Happily, there is growth in produce sales. In 1987 dollar sales from the produce department grew 3.5 percent, and approached the $26 billion mark. Produce prices did rise last year. The Consumer Price Index for fresh fruits and vegtables rose 10.3 percent during 1987.

A lot of things have happened to the produce department in terms of products in the last few years. We all remember the time when these departments carried basically the same products year after year. Sure, there were a lot of seasonal changes in products, but not much changed on a yearly basis. In today's produce section the rate of change has definitely changed.

New products and sections

Today's stores have produce sections that carry an average of 173 fruit and vegetable items, with that number rising to 239 during the summer months. Some of these items are new varieties of familiar products, but many are exotic items that

Produce Census, Sales & Margins

With produce departments in virtually all of the nation's supermarkets, sales of fresh fruits, vegetables, floral and other products have reached the $26 billion mark. With the average unit now selling more than $16,400 in produce each week, the sales level has risen for 80% of the stores operating during 1987.

With almost 8% of store sales coming from the produce section and a gross margin of 32%, produce sales have proven to be extremely profitable. The average section contributes almost 17% of the total profits of the store.

Produce Units

Produce departments in supermarkets	30,300
Percent of all supermarkets	99.7%

Average Weekly Sales

Mean **$16,476** Median **$16,000**

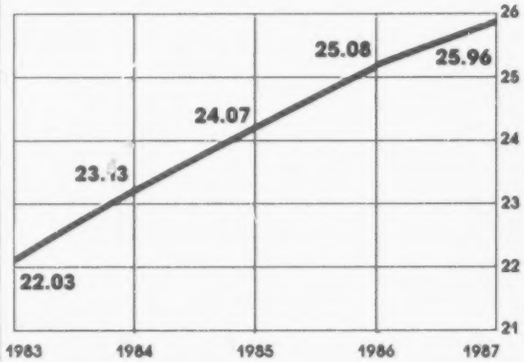
By Store Format

Conventional	$5,623
Super Store	$22,331

Change in Dollar Sales
(1987 vs. 1986)

Higher	80%
No change	10
Lower	10
Total	100%
Average reported increase	8.2%

Annual Sales (billions)



Sales, Profits & Margins

Share of Total Store Sales
Mean **7.9%** Median **8.2%**

Contribution to Store Profits
Mean **16.8%** Median **15.0%**

Gross Margin
Mean **32.0%** Median **31.0%**

had no widespread distribution in this country prior to a few years ago. Importing has also had an impact on the produce section's ability to regularly stock more common produce items.

Not only does the produce section enjoy the influx of new products, or year-round availability of products, but many departments are also branching out beyond the traditional fruits and vegtables into new subsections. Bulk foods, expanded floral sections, fresh squeezed juices and salad bars all have added to the produce department's product mix. Many stores have always had these subsections, but not to the extent that they do now.

The SUPERMARKET BUSINESS *Produce Department Operations Review* shows that these sections are prevalent in today's stores, and that many of these special sections are part of the produce department. Floral sections are present in 83 percent of the nation's supermarkets. Seventy percent of these floral sections are under the control of the produce manager. Bulk foods sections are in 67 percent of our stores, with half of those coming under the jurisdiction of the produce department. Only 40 percent of supermarkets offer fresh squeezed juices, but all that do, do so in the produce department.

Salad bars are the only special section that is generally not under the direct control of the produce department. Even though many of the ingredients on the salad bar come from produce, and the bar often is physically located within or adjacent to the produce section, in 67 percent of the stores it is operated by a different department, usually the service deli.

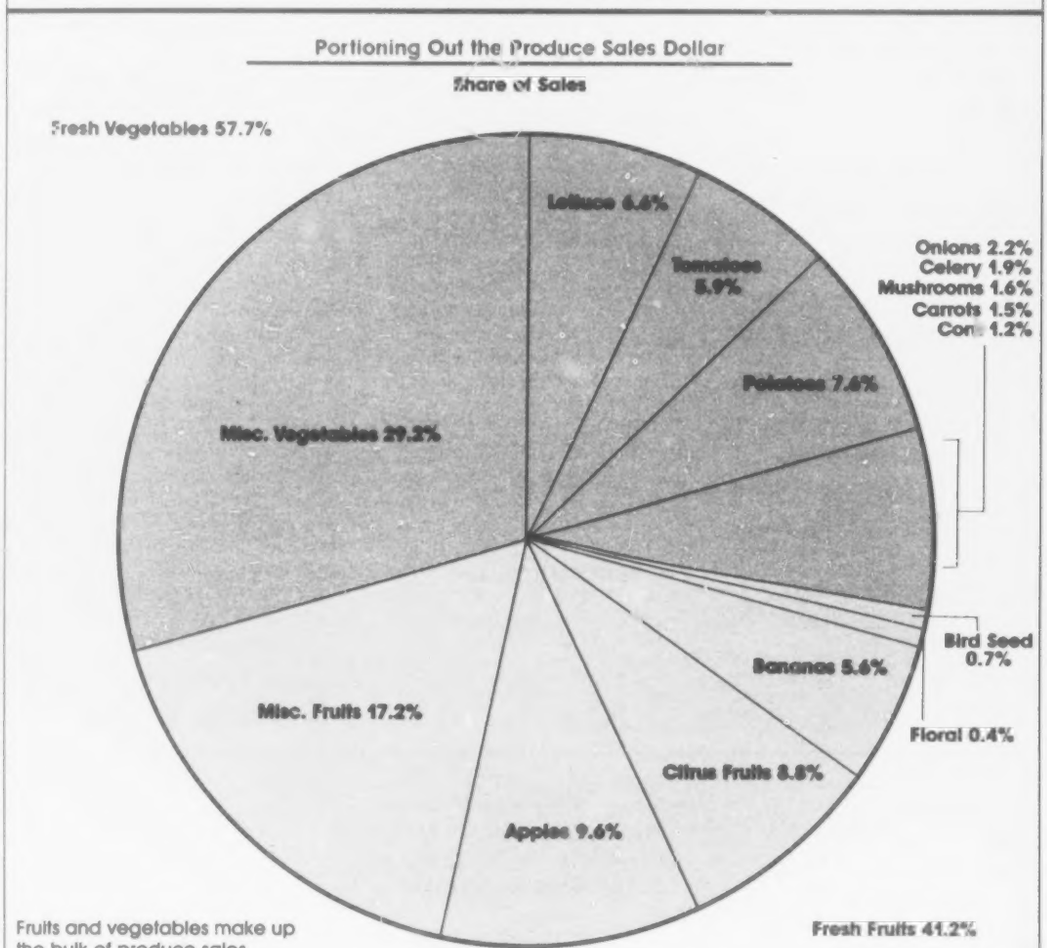
The most rapidly expanding produce product lines are precisely those that are reflected in the newer department subsections. According to retailers, the product lines that they add or expand most often in their produce sections include exotic fruits and vegetables, bulk foods and freshly squeezed juices.

Thanks, Johnny Appleseed

New sections and products are always interesting to talk about, but they don't account for that much of the produce department's total sales. Floral, for instance, accounts for less than one half of one percent of total produce sales. Produce still means fruits and vegetables. More than 98 percent of produce sales still come from fresh fruits and vegetables. The majority of sales come from the vegetable bins, which account for 57.7 percent of all produce sales. Fruits contribute over 41 percent to total produce sales.

Most produce does not account individually for much of a share of produce sales. The single largest selling produce items are apples, which account for 9.6 percent of produce sales. Citrus fruits (8.8 percent), potatoes (7.5 percent), lettuce (6.6 percent) and bananas (5.6 percent) are the other items that

Product Mix



Fruits and vegetables make up the bulk of produce sales, capturing about 99% of sales.

Okay, What Is It, And What Do You Do With It?

Take the Produce Challenge!

On our cover are 20 varieties of exotic produce. If you're a supermarket company executive or employee, and you can name them all correctly, you could win a Sony Watchman personal TV.

All you have to do is refer to the outline drawing here.

Then, on a sheet of your company letterhead, list each number from 1 to 20, along with each item's correct name. Mail to SUPERMARKET BUSINESS Produce Challenge, 25 W. 43rd Street, Suite 707, New York, N.Y. 10036. Include your NAME, TITLE, ADDRESS and PHONE NUMBER.

Two TVs will be awarded by random drawing of all correct entries. The correct name of each item, your name if you get them all right, and the names of the two winners (one could be you!) will be listed in the December issue of SUPERMARKET BUSINESS.

Good luck!

command a large share of the produce dollar.

Because there is now such an extensive number of produce items, most don't command a large enough share of produce sales to even measure. Miscellaneous products — those with less than one percent of total produce sales — together make up 53 percent of total department sales.

There is good reason for the retailer to try and do anything he can to increase produce sales. First, produce has long been considered the top drawing card for any store. Secondly, and perhaps more importantly, produce sales are highly profitable. The total produce department has an average gross margin of 32 percent, which is higher than most other food sections.

Gross margin is one thing, but bottom line, take-to-the bank profits are what grocers are really interested in. In terms of net profit, produce's share of the profits outweighs its share of store sales. Currently, the produce department takes in an average of 7.9 percent of total store sales, but that 7.9 percent generates 16.8 percent of the total net profit for that store. So the profit-to-sale ratio of the produce department is better than 2:1. At current margin and turnover levels, every sale that a retailer can generate in the produce department will generate twice its "weight" in profits.

In 1987 supermarket produce departments averaged $16,476 in weekly sales. This average may be misleading. There is a rather large range in the average department weekly sales depending on the type of store. The average weekly sales for a conventional store were just $5623 compared to the weekly produce sales of $22,331 generated by a super store.

Part of the reason for the big difference in weekly sales among the two store formats is in the size of the departments. The produce department in the super stores of the companies we surveyed averaged 5036 square feet, while those in conventional stores averaged only 2000 square feet.

The more than twice-as-large departments in the super stores helped to account for a weekly sales per square foot figure of $4.43 in those stores, as opposed to the $2.81 in conventional stores. The total average sales per square foot of all produce departments was $3.42 in 1987. The sales per square foot of the produce department, while extremely profitable, are not as high as those of some of the service food departments. Service delis, for example, have average sales per square foot of $6.61, while pharmacies bring in over $25 per foot each week. The produce figure is on par with other departments, such as the instore bakery ($3.55 per foot).

Supermarket produce departments enjoy fairly low labor expenditures. The average department has only about five full-time equivalent employees. These employees are able to maintain the average 4800 square feet of produce department. The average sales per employee for the department are $3051 per week. This is fairly high for a department that is a semi-service department.

Labor costs are a very big part of the reason why produce sales are so profitable. On average, only 9.2 percent of each dollar in produce sales goes to pay for the department's work force. Compare this with the 23 percent labor cost in the deli and more than 33 percent in the bakery.

Loose vs. packaged

Most of us grew up seeing the pyramids of apples or oranges piled high on produce tables, and got a slight feeling of dread when all the apples started to shift after picking one from the base of the pyramid. We've all imagined seeing apples rolling everywhere across the store floor at those moments.

The pros and cons of loose vs. packaged merchandising method, have been argued back and forth for the last 15 years. Currently, retailers are again leaning toward the loose displays. They report that on average 65 percent of their products are sold through bulk displays, and only 35 percent are prepackaged. This is a great victory for those whose mothers taught us how to discover all of a vegetable's inner secrets by squeezing, smelling and feeling.

Produce and meat are two departments that were always a little different. They are the only two departments in the store, other than those sections that produce their own products like the bakery and deli, where the products are judged individually on their own characteristics, and not by their brand

Space, Location & Equipment

Size of Department

Square Feet of Space	
Mean	4,817 Square Feet
Median	2,800 Square Feet
By Store Format	
Conventional	2,000 Sq. Ft.
Super Store	5,036 Sq. Ft.

Share of Total Store Space	
Mean	12.3%
Median	11.0%
By Store Format	
Conventional	12.3%
Super Store	11.6%

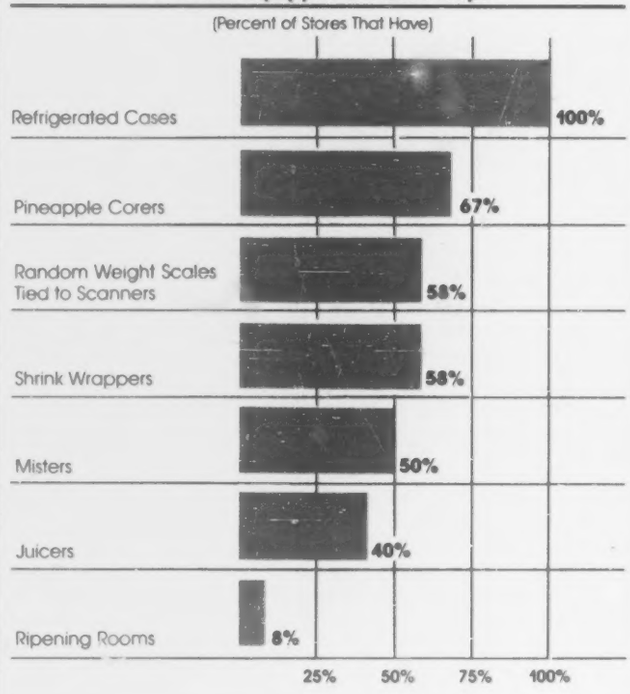
Average Weekly Sales Per Square Foot of Space	
Mean	$3.42
By Store Format	
Conventional	$2.81
Super Store	$4.43

Produce departments are getting larger and larger in order to accommodate more items. The average department is more than 4,800 sq. ft, or about 12% of total store space in whatever sized store it is in. Large floor plans in the department account for a weekly sales level of $3.42 per sq. ft.

The average department is well stocked when it comes to produce equipment. All units now have refrigerated cases, with the majority of produce sections also employing corers, scales tied to scanners, shrink wrappers and misters.

The Well-Equipped Produce Dept.

(Percent of Stores That Have)



Labor & Service

Number of Employees

Full-time	3.6
Part-time	3.6
Full-time Equivalent*	5.4

Full-Time Equivalent Employees

Fewer than 3	3%
3–4	20
5–6	26
7–9	51
Total	100%

*Two part-time = one full-time employee

How Much for Labor

(Labor as a Percent of Produce Sales)

Mean	9.2%
Median	9.0%
8% or less	23%
8%	7%
9%	24%
10%	45%
11% & Over	1%
Total	100%

Average Weekly Sales Per Employee*

Mean	$3,051
$2,000 or less	9%
$2,001–$3,000	28
$3,001–$4,000	39
Over $4,001	24
Total	100%

*Full-time equivalent employees

Items Sold Packaged or Bulk

(percent of products)

	Mean	Median
Packaged	35	40
Bulk	65	60

Supply

Varieties of Produce Items Sold

Varieties	Year Round Mean 173	Summer Months Mean 239
100 or less	55%	32%
101–200	7	3
201–300	20	25
300 & Over	18	40
Total	100%	100%

Sources of Supply

Delivered Direct to Store	5%
Through Warehouse	95
Total	100%

Use of Locally Grown Products Mean 11.9%

(Percent of Items)	
Less than 5%	16%
5–9%	7
10–14%	51
15% & Over	26
Total	100%

Merchandising & Customers

How Customers Spend

Percent Who Shop the Produce Dept.

Mean **51%** Median **50%**

How Much They Spend

Mean	$1.71
Under $1.00	34%
$1.01–$2.00	7
$2.01–$3.00	28
$3.00 or more	31
Total	100%

Labor is the produce department's secret weapon in the war for profits.

With the explosion of exotic varieties, and year-round availability of more common products, the produce department now features a year-round average of 173 items.

About half the store's customers buy produce items, with the average transaction amount being $1.71.

name. With few exceptions, produce products have traditionally been sold unbranded. At most, the items were labelled as being from a certain area — Idaho potatoes or California carrots.

Over the past few years this has begun to change, with more products being sold under a brand name. About two-thirds of the companies surveyed indicated that they had increased the number of branded produce items they carried during 1987, and three-quarters of the retailers believe that branded products will increase in the produce section in the future. Large companies have become active in establishing or expanding national produce brands. As they become more aggressive, consumer acceptance of branded produce will undoubtedly increase.

One indication of the ultimate attraction and importance of the department is the level of consumer traffic and purchases. The majority of patrons walking through a store will make a purchase from the produce department. An average of 51 percent of all store customers buy at least one produce department item. This is much higher than any of the other perimeter departments. Any deli, bakery or meat director would give his eye teeth for a purchase percentage that even approached 50 percent.

On average, each transaction within the produce section is $1.71. In itself, this figure is not enormous, and is lower than those of the deli and meat departments, and about the same as the instore bakery. The $1.71, coupled with the high number of transactions, helps make the produce section one that generates high sales, and maintains high profits for the store. ■

1988 FOODSERVICE DEPARTMENT

OPERATIONS REVIEW

BY DAVID LITWAK, DIRECTOR OF RESEARCH

Prepared foods, cold prepared foods, snack bars, sushi bars, sit-down restaurants, eating areas, cafeterias, off-premise catering – you name it, and supermarkets are getting into it. The concept of the supermarket as a full-service food center is just beginning to come into its own at a few locations, but its importance to the future of food retailing cannot be overlooked.

For years, the pages of INSTORE BUSINESS have contained photos of operators getting into all kinds of store-prepared foods. We've shown the reader instore restaurant and snack bar formats, and chronicled the successes and failures of gourmet-trained chefs brought into supermarket kitchens. Many smart operators have used various forms of instore foodservice as a means of competing against restaurants and fast food units for a bigger share of the food dollar.

With its entrance into the foodservice arena, the supermarket has charged headlong into a new area of competition.

With this in mind, INSTORE BUSINESS measured the extent and influence of instore foodservice in the nation's supermarkets. The results of this investigation are reported in this Instore Foodservice Review. This is the first in-depth look at these services in isolation from the larger service departments.

Prepared foods, whether they be entrees, side dishes, sandwiches, salads, pizza, complete dinners, or any number of other types of items are the most prevalent type of foodservice offered by supermarkets. Of the 18,800 supermarkets with service delis, 84 percent offer some types of prepared foods. The sales of these foods were an impressive $1.94 billion in 1987.

As important as the sales dollars of prepared foods themselves are the extra sales dollars they bring into the store by drawing customers to a particular unit. While no hard figures exist, it is clear that many patrons are not just buying prepared food items because they see them in a store that they are in, but are beginning to shop a particular store *because* of those prepared items. As a supermarket's prepared entrees grow in popularity, customers will come to that store to pick up the entree as their main meal ingredient, and subsequently pick up other grocery items. Just as independent delis and gourmet stores always carried some grocery items that they sold as convenient companions to their main prepared food business, many supermarkets are enjoying sales of grocery products as convenience companion sales brought into the store by the prepared foods.

Hot entrees hold a slight edge over refrigerated as to the number of units that carry them. About 79 percent of units with a service deli carry hot items, as contrasted with 75 percent that carry refrigerated.

While hot entrees have been popular for a number of years, refrigerated items are just now enjoying their rise in popularity. Innovative packaging techniques and the widespread availability of microwave ovens have made the refrigerated items as convenient to use as hot products. The availability of refrigerated items sold as self-service items has cut waiting time in supermarkets, which is extremely important when trying to reach the busy consumer on his/her way home from work. Most retailers (88 percent) expect to be offering more refrigerated entrees in the future; only 33 percent say they expect to be adding more hot foods.

Refrigerated entrees have also gained popularity from the operator's point of view. Operators benefit from refrigerated entrees because they are easier to maintain, generally have a better appearance, and ultimately involve lower labor costs. Properly maintaining hot foods that are displayed on a steam table is one of the trickiest, most time-consuming chores that a deli employee faces. Many a deli manager has lamented over dried out ribs, limp lo mein or macaroni with browning cheese on top of it after too many hours on the steam table. These conditions certainly can be remedied, but it takes effort, attention and concern from the department staff.

Retailers are discovering what restaurateurs have known for years: Refrigeration will let prepared food products keep most of their original properties and appearance, if they are packaged properly. Consumers, from their reaction to refrigerated entrees, appear to be very willing to buy refrigerated.

The ideal way to merchandise prepared foods is to have a balance between the hot and the refrigerated items on your "menu." Most retailers seem to be taking this dual approach since over 70 percent of the stores that sell prepared foods do sell both kinds. Knowing which foods to offer hot and which refrigerated is a matter of

experience, and knowledge of the items themselves, as well as the tastes of consumers in your area.

The average weekly sales of prepared food products in supermarkets was $2,651 in 1987. The actual range of weekly sales figures was very large, with about a third of the retailers doing more than $4000 in prepared foods sales per week. In those stores that sold them, prepared foods accounted for an average of 1.7 percent of the total store sales. This was higher than the 1986 sales of prepared foods in 75 percent of all units.

Many times when a business branches out into a new product area, it takes a while before those types of products start bringing in profits. Not so for prepared foods. Operators report that the prepared foods in their stores have an average gross margin of 53 percent. As supermarket margins go, that is quite a high figure. The margin for the total service deli department is only 44 percent, while the instore bakery is 47 percent, produce 32 percent and fresh meat only 20 percent.

Prepared foods are enjoying the high gross margin, but one is tempted to ask the question "is a margin of 53 percent high enough?" When the supermarket sells fresh prepared foods, it is competing directly with restaurants, gourmet take-out stores, and off-premise caterers. The average mark-up taken by members of these industries, especially the take-out stores and caterers where sitdown service is not a factor, is between 100 and 200 percent. It would appear that the supermarket can still increase the margins it's getting on prepared food items, while maintaining its competitive pricing against other members of the foodservice industry.

Can supermarkets really make a profit selling prepared foods? They can, and they do! Prepared foods contributes an average of 4.1 percent of the total store profit to those stores that sell them. With a ratio of profits contributed to sales of better than 2:1, prepared foods have proven themselves to be highly profitable additions to the store's product mix.

Somewhat surprising is the fact that labor is not that much of a factor in the profits generated by prepared foods. On average, just 14.7 percent of prepared food sales is accounted for by labor costs. This is more than a third less than the percentage of sales that labor accounts for in the total service deli.

How can a labor-intensive activity like preparing foods have such a low percentage of its sales eaten up by labor costs? The answer has to do with the higher profit margins generated by selling products that have been combined into a finished item as opposed to selling them individually. Also, there just might be less labor involved in preparing a large quantity of an item, especially refrigerated

Prepared Foods Census

About 85% of stores with a service deli department use that department to merchandise prepared foods. Sales of both hot and refrigerated entrees, side dishes and other products bring in an average of $2,651 a week.

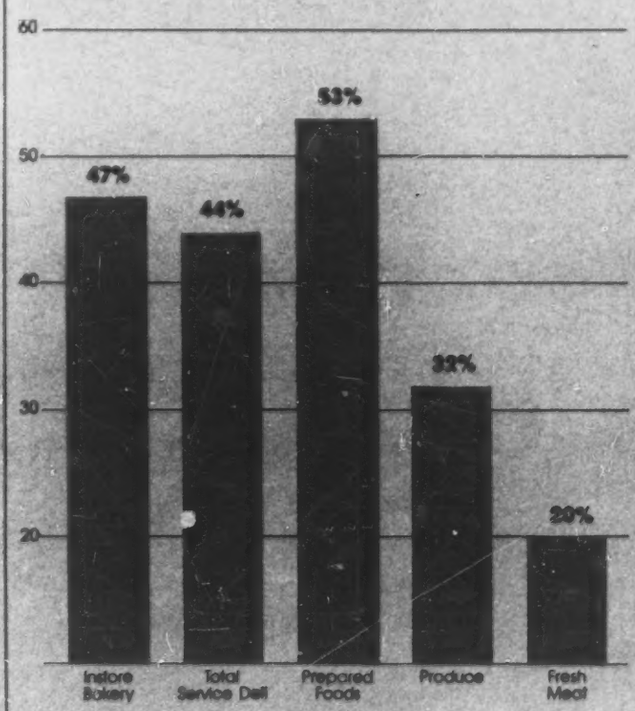
Prepared foods account for only about 1.7% of total store sales, but with margins averaging 53% prepared foods add about 4% to the bottom line of stores selling them.

Prepared Foods Sections

	Number of Supermarkets* Selling:	Percent of Total Units With Instore Delis Selling:
Any Prepared Foods (Hot or Cold)	15,792	84%
Hot Foods	14,100	79
Refrigerated Prepared Foods	13,912	75

*9% of these stores started selling prepared foods in 1987

Gross Margins of Various Store Departments



Annual Sales 1987

Prepared foods **$1.94 Billion**

Sales & Profits

Prepared Foods Share of Total Store Sales

Mean **1.7%** Median **1.0%**

Contribution of prepared foods to store profits

Mean **4.1%** Median **4.2%**

Average Weekly Sales

Mean **$2,651** Median **$2,163**

Weekly Sales	
$1,000 or less	9%
$1,001-$2,000	4
$2,001-$3,000	62
$3,001 & Over	33
TOTAL	100%

Average Gross Margin of Prepared Foods

Mean **53.0%** Median **53.0%**

Gross Margin	
Less than 40%	2%
40-50%	26
51-55%	2
56-59%	68
60% and over	2
TOTAL	100%

self-service products, than there is in custom slicing cheese and cold cuts in the service deli. Admittedly, some of the labor costs involved with the customer service end of prepared foods are probably attributed to the total deli instead of the prepared items.

Where the food comes from

The labor picture in the deli department is starting to change as a result of the incorporation of prepared foods. About 11 per cent of service deli staff members are now reported to be trained cooks. The term "trained cooks" certainly means many different things from company to company. In many cases the term connotes employees who have completed some sort of in-house training program, and can finish off and decorate products from foodservice suppliers, or can cook hot dogs and make tuna sandwiches at the snack bar. This definition is, however, not always the case. More and more supermarkets are turning not only to "trained cooks," but to chefs.

Operators who are serious about prepared foods have begun hiring experienced chefs, usually right out of restaurant kitchens. In some cases these chefs may well be graduates of one of the more well-known culinary institutes in this country, or in Europe. This has helped to establish the reputation of these companies' products as being high-quality, gourmet items, and has helped them to differentiate their food offerings from those of other retailers who may be taking more of a mass foodservice supplier approach.

Retailers get their prepared foods from a variety of sources. The bulk of these foods currently comes from foodservice suppliers. Operators report that they buy two-thirds of their current prepared foods offerings directly from a supplier. Most of these products come fully prepared. The other third of the products are produced by the supermarket companies themselves. Most of these company-produced products are actually made in the stores, and they range from the very simple to the fairly sophisticated. The remaining products are produced in a company-owned central kitchen or commissary.

One interesting fact is that virtually no prepared food products are bought from local restaurants or independent caterers. Even though such outlets are sometimes the competition, they can also be untapped sources of quality prepared food products.

Instore eating

Not all instore foodservice is of the take-out variety. Supermarkets across the country have begun implementing instore eating in one form or another. Whether it be for a quick snack while shopping, lunch for neighboring workers, or a complete sit-down dinner, the supermarket is starting to pro-

Prepared Foods Sales, Labor Products

Supermarkets are increasingly turning to experienced cooks and chefs to create their prepared food offerings. This helps to account for labor costs of 14.7% of sales for prepared items.

The extra effort seems to be paying off. Three quarters of grocery companies report that their sales of prepared foods increased during 1987. Although prepared foods, especially refrigerated prepared foods, can be merchandised anywhere in the store, the vast majority are sold through the service deli.

Changes in Dollar Sales of Prepared Foods
(1987 vs. 1986)

Higher	75%
No Change	25
Lower	0
TOTAL	100%
Average Reported Increase	13.6%

How Much for Labor
(As percent of prepared food sales)

Mean 14.7%	Median 21.6%
less than 10%	3%
11-20	89
21-29	7
30 and over	1
TOTAL	100%

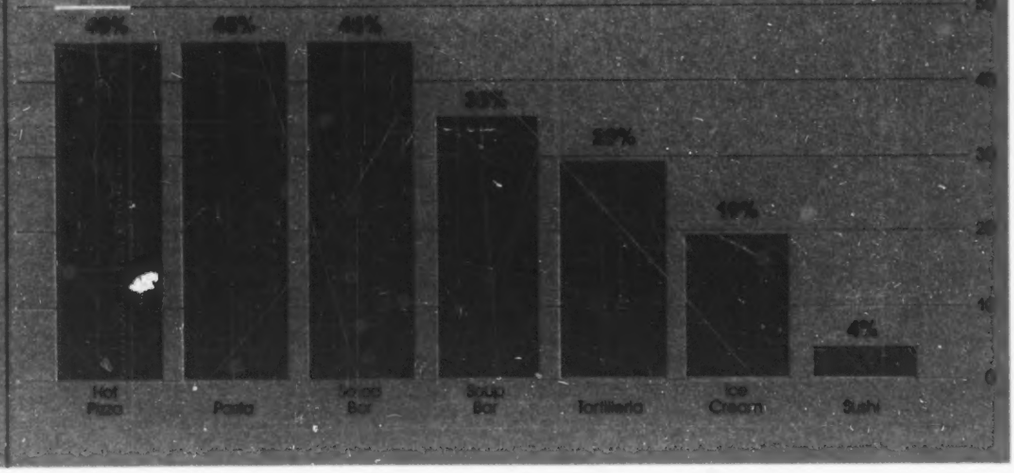
Percent of Total Prepared Food Sales Sold Through:

Service Deli	89%
Separate Hot Service Counter	8
Self-service Area	1
Refrigerated Cases	2
TOTAL	100%

Trained Chefs

Percent of Instore Staff that are Trained Cooks	10.9%

Special Food Service Sections
Percent of Companies



vide facilities, food and service.

America is becoming more of an eat-out, eat-on-the-go society. The prepared foods offerings on a take-out basis meet one part of the needs of this mobile society. They offer quick, quality foods that can be used for a meal at home. For the times that an at-home meal is not feasible or desirable, many stores are offering not only the food, but a place to eat it as well.

Just how much should the average operator get into the field of prepared foods and eating facilities to make them pay off?

The importance of providing a facility for eating is recognized by most operators. Of the stores that have service deli departments, 71 percent have some sort of area in which people can sit and eat. The majority of these 13,300-plus eating areas are simple tables and chairs, or counters tucked away in a relatively quiet corner somewhere. They are intended for the consumption of items purchased at the deli, snack bar, or instore bakery, and are often located adjacent to those areas.

Of course, there are eating facilities in supermarkets that do come with the food attached. Almost 1700 units now have snack bar facilities, where the patron can get a quick snack or fast meal. Some supermarkets were not content to stop at the snack bar stage and have evolved their facilities into full-scale restaurants and cafeterias, complete with sophisticated menus, waiter service and, in some cases, wine lists. The almost 200 restaurant units feature extended menus, and many are open late hours to accommodate late dinner or after theater crowds.

While snack bars are generally small facilities, often at the front of the store, restaurants involve a much larger chunk of the store's real estate. The average supermarket restaurant/cafeteria is about 1500 square feet. A large proportion of this room is taken up with the actual dining area, as many restaurants share kitchen facilities with the service deli area. Additionally, it is a general rule of thumb that the chef in charge of the deli foods is also the restaurant's executive chef. This is the case even though the restaurant menu is often different than the prepared foods offered in other parts of the store.

There are two basic reasons for operating a restaurant within a supermarket. First is the opportunity to cash in on a need in the market area for the type of service you are trying to provide. If there is a need for a specific type of restaurant facility, whether it be for lunches, dinners or late snacks, and the investment of space and resources can be justified, then it might prove to add additional revenue to the store's bottom line—if the facility is planned and operated correctly.

The second reason is that for a store that has an aggressive prepared food program, especially one that is upscale or gourmet, a restaurant is often used as a way to showcase those foods. If the store's restaurant has a quality image, operators say, then that image will rub off on the rest of the store's foodservice.

The quality and image of a supermarket restaurant, or any

Eating Areas

While still primarily a takeout business, instore foodservice has increased its participation in the on premises foodservice business. There are now almost 1,700 instore snack bars, and this number appears to be growing. Over 70% of the nation's supermarkets provide some sort of instore eating facilities where patrons can sit and eat store purchases. This, in effect, turns the whole store into a large snack bar.

Stores With Eating Areas

	Number of Supermarkets	Percent of Stores with Delis Having Each Section
Snack Bars	1,692	9%
Sit-Down Restaurants/Cafeterias	186	1
Sit-Down Eating Areas	13,348	71
Drive-Thru Areas		<1%

Average Size of Sit-Down Restaurants/Cafeterias 1,500 sq. ft.

Average Gross Margins of Eating Sections

Snack Bars	50.0%
Restaurants/Cafeterias	50.0
Off-Premise Catering	58.8%

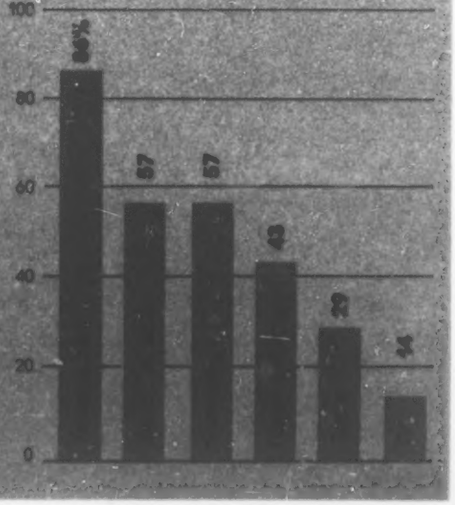
Who Manages the Sections

	% by Deli Dept.	% a Separate Section
Snack Bars	100%	—
Restaurant/Cafeteria	75	25
Off-Premise Catering	100	—

Do You Consider Instore Eating Facilities to be:

Image/Traffic Builders	20%
Profit Centers	0
Both	80
TOTAL	100%

Advertising and Promotion Instore Foodservice



restaurant for that matter, is hard to establish and maintain. Planning and operation are the keys to creating and enhancing that image. Retailers who have dabbled with restaurants in their units stress the differences in the operations of stores versus restaurants.

Many grocers hesitate, and rightfully so, to get into eating facilities because of their lack of restaurant expertise. This is part of the reason that grocers have begun wooing chefs from restaurants, or have been turning to consultants who have experience in both the supermarket and foodservice fields. As one supermarket foodservice director put it, "It's very hard to teach a grocer to run a restaurant or foodservice unit, and almost as hard to take a restaurateur and teach him to operate within the dynamics of a supermarket." Grocery operators are having a hard time finding a person who can do both.

Another form of instore foodservice that is beginning to become popular is off-premise catering. About 40 percent of the companies say they offer some type of catering services. Most of these retailers offer only party platters. Those companies that do offer more sophisticated forms of off-premise catering are really on the cutting edge of the instore foodservice movement. Outside of being a profit-generating service, catering is another way to enhance an operator's foodservice image. As with restaurants, catering is used to showcase the prepared food products that a company offers in their stores. Retailers have used catering as a way of reaching out into the community, and involving the store in the community's functions.

All indications are that supermarkets will expand on the instore eating concept. Prepared foods and instore eating have helped supermarkets evolve into full service food centers.

The instore eating facilities can be extremely profitable for retailers, if they are handled correctly. The average gross margins generated by both snack bars, and supermarket restaurants are 50 percent, which puts them among the highest margined sections in the store. Off-premise catering, which usually borrows most of its production space from the deli or commissary, has a margin of 59 percent. If the sales from these sections can be kept at a high level, the profits will be there.

According to retailers, instore eating facilities do produce profits. Eighty percent of the retailers indicated that they considered their instore eating areas to be profit centers, as well as image builders.

Grocery companies are beginning to promote and advertise their instore eating sections. Most companies (86 percent) promote the facilities in newspapers. Interestingly, some enterprising retailers have started placing ads for their restaurants or catering, not in the food sections, but in the entertainment and dining sections of the paper. You have to compete where the competition does. Store circulars and sampling are other popular means of promotion for these services and facilities.

Where do these new eating facilities and foodservice offerings fit into the larger supermarket operating scheme? Basically foodservice, in any form it takes, has fallen under the purview of the service deli department. Virtually all the snack bars and catering facilities come under the management of the deli department, whether in the store or at the district office, and 75 percent of the restaurants/cafeterias come under deli jurisdiction. The remaining 25 percent of supermarket restaurants are managed as separate departments.

The deli manager as restaurateur, caterer and gourmet take-out entrepreneur is quite a role to have to fill. There is little chance of success in all these roles without a great deal of direction from headquarters. The upshot is that the deli section has come a long way from just slicing bologna. Not that bologna is still not extremely important, but the deli has taken the forefront in the fight for the foodservice dollars.

Foodservice has one solid advantage in that it draws on the products and expertise of many of the store's departments. True, the deli generally manages the store's foodservice efforts, but those efforts usually feature products from the bakery, produce, meat and grocery departments. It is a good way to showcase the types of items sold throughout the store. Many smart operators are using foodservice as a way to cross merchandise general merchandise and floral items as well as food products.

There is one additional consideration that instore foodservice forces an operator to look at. When instituting any type of instore foodservice, whether catering, restaurants, snack bars or just prepared food products, the retailer has to rethink his image of his competition. No longer is he just competing with other grocery retailers. He is now competing directly with restaurants, caterers, take-out shops and fast food units—and he is competing on their turf. These competitors cannot be given lip service and must be included in the competitive analysis done for any unit. Retailers who fail to include these new competitors will probably be instituting instore foodservice departments that are doomed to fail. ■

Prepared Foods Merchandising & Production

Despite the increased use of trained personnel, the lack of availability of the number of trained chefs needed is one reason that most operators purchase 67% of their prepared foods from foodservice suppliers. Operators predict they will be offering more refrigerated items in the future.

In Which Direction Will Your Prepared Food Sections Go in the Future

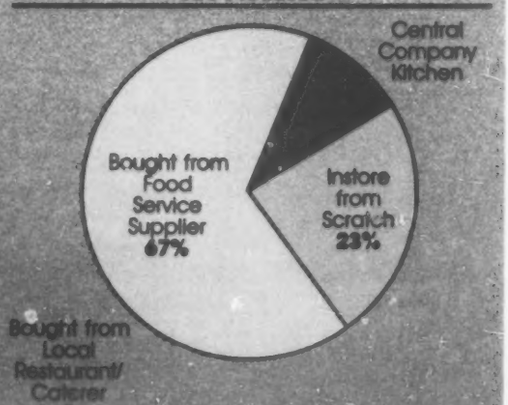
More Service	56%
More Self-Service	44
TOTAL	100%

...pared Foods Products ... the Future

Mo... Hot Foods	33%*
More Refrigerated Foods	88
No Change	12

*Includes multiple responses

How Food Products Are Produced


Central Company Kitchen
Instore from Scratch 23%
Bought from Food Service Supplier 67%
Bought from Local Restaurant/ Caterer